G-004/M-92-599 ORDER APPROVING DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE PROGRAM WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Proposal of Great Plains Natural Gas Company for Financial Incentives for Encouraging Demand-Side Resource Options

ISSUE DATE: December 9, 1992

DOCKET NO. G-004/M-92-599

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PROCEDURAL HISTORY

On April 10, 1991, the Commission issued its ORDER SOLICITING COMMENTS in Docket No. G-999/CI-91-188, In the Matter of a Summary Investigation into Financial Incentives for Encouraging Demand-Side Resource Options for Minnesota Gas Utilities. In that Order the Commission initiated an investigation into financial incentives for encouraging demand-side resource options for gas utilities.

On October 18, 1991, the Commission issued its ORDER REQUIRING GAS UTILITIES TO FILE FINANCIAL INCENTIVE PROPOSALS in the aforementioned docket. In that Order the Commission required all Minnesota gas utilities (except Midwest Gas, which was already implementing a financial incentive pilot program) to file demand-side management (DSM) programs on or before June 1, 1992.

On June 29, 1992, Great Plains Natural Gas Company (Great Plains or the Company) filed its proposal for a DSM financial incentive program.

On August 31, 1992, the Department of Public Service (the Department) filed comments regarding the Company's DSM proposal.

The matter came before the Commission on November 23, 1992.

FINDINGS AND CONCLUSIONS

I. Great Plains' Proposal

Great Plains filed a two-part proposal: one part of the proposal addressed the recovery of Conservation Improvement Program (CIP) expenses; the other part addressed recovery of lost margins due to DSM costs.

Great Plains is the only remaining CIP utility which has no approved cost recovery plan for conservation expenditures. To address this issue, the Company proposed a Conservation Improvement Plan Adjustment (CIPA) to recover its CIP expenditures. The CIPA would be calculated by dividing projected CIP expenditures for a particular rate class by the Company's projected annual sales for that class. The CIPA factor would be applied to CIP expenditures for the 12-month period which coincides with the CIP year (October 1 through September 30). The Company would recover on a monthly basis the amount by which projected CIP expenditures exceed CIP expenditure recovery amounts calculated in base rates. Over the CIP year, Great Plains would track actual expenditures and would true-up any over- or underrecoveries in the next year's CIPA.

The second part of Great Plains' proposal addressed issues associated with DSM expenditures. Utilities such as Great Plains seek recovery of lost margins because more and better DSM and conservation programs usually bring about significant reductions in gas sales. Lower gas sales mean a lower recovery of fixed cost, which is a disincentive against the DSM option unless a recovery mechanism is applied. Under Great Plains' lost margin recovery proposal, the Company would calculate lost margins annually, using margins approved in its last general rate case, and recover them through the CIPA.

II. Comments of the Department

In its comments, the Department discussed its general criteria for assessing proposals on financial incentives. Those criteria include lack of conflict with Minnesota statutes or rules, contribution to diversity in incentive mechanisms, a performance basis for recovery, and administrative practicality.

The Department did not agree with the Company's proposal for recovery of CIP expenses on a monthly basis. The Department argued that a mechanism to recover CIP-related costs between rate cases is contrary to Minnesota statutes and rules. According to the Department, only two types of rate changes are allowed between rate cases: changes reflecting fluctuations in gas costs; and in some instances, rate changes reflecting taxes, fees and permits. Since adjustments to recover CIP costs would not fall within these categories, the Department reasoned that they could not take place. Such adjustments between rate cases would amount to single-issue ratemaking, according to the Department. Further, the Department felt that highlighting rate increases due to conservation expenses, without emphasizing the benefits, might turn the public against the idea of conservation projects in general.

The Department recommended that Great Plains be required to establish a CIP tracker account, with a carrying charge set at the rate of return approved in the Company's last general rate case. The tracker balance would be submitted for recovery in the Company's next general rate case.

Although the Department agreed with the Company's proposed recovery of 100% of DSM lost margins, the Department felt that these amounts should be deferred and tracked rather than recovered on a monthly basis. The Department also recommended that a performance component be tied to margin recovery. For the calculation of lost margins, the Department recommended using engineering estimates of the savings per participant, applied to the number of participants in the project. Finally, the Department recommended that Great Plains be required to file its calculations of lost margin recovery by November 1 for each previous CIP year.

III. Commission Analysis

CIP Recovery

The Commission finds that recovery of Great Plains' CIP expenses is consistent with the treatment of other utilities, a proper removal of barriers to conservation practices, and an equitable means of making a utility "whole" for conservation costs. The Commission finds, however, that Great Plains' proposed monthly CIP adjustment is not permissible under current Minnesota law. The Commission agrees with the Department that Great Plains' CIP costs should be deferred and tracked, including carrying charges at the rate of the Company's latest authorized rate of return. The Commission will authorize a CIP tracker account for the Company, in which the Company may track all conservation expenditures for proposed future rate case recovery, as of the date of this Order.

The Commission will not allow Great Plains' proposed CIP recovery by customer class. The Commission will require the Company to establish a single recovery factor (the Conservation Cost Recovery Charge, or CCRC), which will be calculated by dividing test year expenses by test year sales volumes. The Company must then apply the CCRC to all volumes sold. This method of recovery calculation is consistent with prior Commission decisions for other utilities, and reflects the fact that the benefits of a conservation program are system-wide, regardless of which class receives the actual program services.

In a CIP tracker situation, CIP expenditures are offset by the revenues generated by the base rate expenditure recovery mechanism. In the case of Great Plains, if any conservation expenses were built into rates in its last rate case, resulting revenues may be accruing to a tracker account. The Commission will require the Company to file a report indicating the amount (if any) of conservation expenditures included in rates in its last general rate case, a description of the programs supported by those expenditures, and the test year sales volumes used to set rates in the last general rate case. The Commission will use this information in setting a CCRC for Great Plains.

Lost Margin Recovery

In previous decisions in other dockets, the Commission has followed its legislative directive to emphasize and promote DSM and other conservation programs. The Commission has found that allowing recovery of lost margins reduces the obstacle of regulatory lag and thus encourages conservation. Recovery of lost margins can lessen the need of utilities to file frequent general rate cases. For these reasons, the Commission will approve Great Plains' proposed recovery of 100% of lost margins due to DSM expenditures.

The Commission agrees with the Department that the Company's DSM expenditures should be deferred and tracked, rather than recovered on a monthly basis. For the purposes of this two year pilot program, the Commission finds that it is in the public interest to coordinate its consideration of Great Plains' DSM lost margins with the Commission's consideration of the Company's CIP costs. Great Plains will thus be required to track its lost margins and to submit the tracker amount along with the CIP tracker balance for annual Commission review and approval. The lost margins due to DSM will continue to be tracked until Great Plains' next general rate case, when the Company will submit the balance for analysis, review and potential recovery, along with appropriate carrying charges. Tracking the DSM lost margins and filing them along with CIP costs is consistent with prior Commission decisions, administratively sound, and a satisfactory means of protecting both ratepayers and shareholders.

The Commission will not require a performance component in the Company's DSM recovery mechanism, as recommended by the Department. The Commission has addressed the issue of a performance basis for DSM lost margin recovery in previous dockets. In its Order approving Minnesota Power's DSM proposal[1], the Commission stated:

> The Department urged the Commission to tie Minnesota Power's recovery of lost margins to achievement of its CIP goals. The Department is rightly concerned with performance; **** The Commission believes, however, that for purposes of this pilot project, limiting recovery to margins actually lost due to conservation adequately ties recovery to performance. Only when energy has been saved will the Company recover lost margins.

The same reasoning applies to Great Plains' proposed DSM program. The Commission finds that achievement of performance goals is intrinsic to Great Plains' proposal: if margins are not lost due to lower sales, which are in turn due to DSM expenditures, there is no basis for recovery. Great Plains is only proposing a

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[1] In the Matter of the Proposal of Minnesota Power for a Demand-Side Management Incentive, Docket No. E-015/M-91-458, ORDER ESTABLISHING DEMAND SIDE MANAGEMENT FINANCIAL INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS, March 12, 1992.

return to the financial position it would have been in if DSM had not been pursued; it is not seeking any recovery beyond that. It would be unduly harsh to deny Great Plains its margin recovery, or a portion of it, if it fails to meet certain conservation goals. The Commission will approve Great Plains' DSM proposal without imposing a performance component.

Great Plains' proposal did not contain a clear method of calculating lost margins. The Department recommended that the Company calculate lost margins by engineering estimates of the savings per participant, then applying the estimated savings to the number of participants in the project. The Commission agrees with the Department's recommendation. The Company should apply the Department's calculation method, which is workable, accurate, and administratively sound.

ORDER

1. Great Plains' CIP recovery proposal, as modified in this Order, is approved.

2. Great Plains' DSM financial incentives proposal, as modified in this Order, is approved as a two year pilot program.

3. Within 45 days of the date of this Order, the Company shall file a plan for evaluating the DSM financial incentives pilot project.

4. Within 45 days of the date of this Order, the Company shall file a report indicating the amount (if any) of conservation expenditures included in rates in its last general rate case, a description of the programs supported by those expenditures, and the test year sales volumes used to set rates in the last general rate case.

5. On or before November 1 of each year, the Company shall file a report detailing collections and expenditures in the DSM tracker account, a calculation of lost margins and carrying charges for the previous CIP year, and an account balance as of September 30.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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